


THE ADAPTATION OF DIFFERENT STYLES OF
POLICIES TO THE NEEDS OF THE INSURED



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The ADAPTATION OF DIFFERENT
STYLES OF POLICIES TO THE
NEEDS OF THE INSURED

LECTURE

Delivered by

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at the

WESTERN RESERVE UNIVERSITY

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THE ADAPTATION OF DIFFERENT STYLES OF POLICIES TO THE NEEDS OF THE INSURED

“The Adaptation of Different Styles of Policies to the Needs of the Insured,” the topic upon which your President requested me to lecture to you this afternoon, suggests, I take it, that all men should have life insurance adapted to their needs. Although life insurance is not yet universal its necessity may be said to be universally admitted, while the tendencies of the times undoubtedly are in that direction and rapid advancement is being made toward its realization. As raiment is required among other reasons for consideration of morality, so too is life insurance. Suitable apparel protects the wearer against climatic discomforts, marks the distinction between the savage and the civilized and insures a higher standard of morality. Life insurance protects the holder from the hardships of a needy old age and his beneficiaries from the distress, hazards and temptations of poverty. States and governments rapidly are awakening to the necessity of insurance that will be universal or as nearly so as the present development of the science will allow. Statutes for compulsory insurance already have been enacted and others proposed in large numbers and in various forms. One recently pending before one of our legislatures provided for the compulsory insurance of every male of twenty-one years or more not an inmate of some public institution for the mentally or morally delinquent, whose physical condition would permit. Some require the payment of premiums jointly by the employer and employee and some require the state also to join in paying a part of the premium. Some provide accident and illness benefits and old age pensions. The theory upon which such statutes are based is that it is more economical for the state to pay a part of the premium than to support the individual in one of its public institutions in the event he is hurt or sick or during his old age or to bury him when dead. Then too, the moral effect upon the individual of the knowledge that he will not be an object of charity, either when sick or hurt, during his old age or at death, confidently is relied upon to make him a better and more useful citizen. Large as the drain upon the public funds admittedly would be in the operation of such laws, particularly as the population becomes more dense, common labor more plentiful and less liberally compensated, relatively, students of political economy insist that it would be insignificant compared to the increased cost of providing and maintaining the large numbers of public institutions that otherwise would be necessary to care for the state's worthy dependents. And what a tribute it is to the science of life insurance that even governments in no other way so well can contribute to the welfare of their worthy dependents as by availing themselves of its beneficial principles.

In the adaptation of the different styles of policies to the needs of the insured, keeping the policy holder satisfied, is second only in importance to writing him in the first instance; it should be remembered, broadly speaking, that to the legal reserve company all its different styles of policies are equivalents, hence a company has no desire except to supply its policy holders according to their needs, for certainly in the long run the company prospers most which serves its policy holders best. And the same thing is true of the agent. The successful life insurance agent of today is a high grade, professional man, the peer of the members of any of the other learned professions; he has a deep appreciation of the nobility of his calling, the worthy ambition to serve his clients to the fullest extent of his ability, a keen realization that to maintain his prestige he must keep fully abreast of the times, that his reputation and that of his company must be kept above reproach and his highest goal is to deserve and receive the confidence and commendation of his clients. Satisfied policy holders are among the best assets a company or an agent can have and an intelligent company management as well as a wise agent realize this fully; they will do all they can in reason at all times to supply a policy suited to the needs and desires of the insured and to exchange it for him at any time upon an equitable basis should he decide he desires a different form of policy from that supplied him in the first instance. And what is more they will continue to make such exchanges in any reasonable manner in case the insured subsequently decides he wishes them to do so. The agent and the company are just as anxious to please and serve their patrons acceptably as it is the merchant or the member of any of the other professions. The agent knows that to an unprecedented degree his patrons rely upon his suggestions, professional knowledge and advice in making their life insurance investments and to his honor it should be noted that it is rare indeed that he has abused the confidence reposed in him. The agent realizes even more than the insured, I believe, that in purchasing a modern contract of insurance the insured is making a provision for his own comfort in the event of illness, accident or old age or for the protection of his loved ones who survive him. The insured realizes that illness and accident and death occur all around him every day, yet such is the optimism of man, and fortunately no doubt, that he is prone to think of these misfortunes as "coming to the other fellow," not to him; this attitude of mind explains to a large extent the almost universal procrastination exercised by the purchaser of life insurance until the able agent comes along and by tactful ability, some times even by sheer force of dominating personality, persuades or compels his client to do his duty and make needed provision for himself and his beneficiaries by purchasing insurance adapted to his needs. The conviction of the absolute

reliability of the insurance afforded by a policy in his company, his personal knowledge of the many early deaths among his company's policy holders, a surprisingly large number of them being insured under policies less than one year old, impel the worth while agent to use every art at his command to cause his prospect to protect himself and his loved ones while yet there is time — while he is alive and **insurable**. Too many men forget that it is today only of which they are certain; that the insurable man of today may be uninsurable tomorrow and possibly because of no fault of his own; that men sometimes cease to be regarded as first class risks even in the short span of a single day's time because of the unexpected development of a physical infirmity or because of a sudden change in family history, such as the death of a relative disclosing a theretofore unrealized heritage of weakness or malady; that the total cost of life insurance is not increased by purchasing it at an earlier age, for while the number of premiums to be paid may be greater, the annual premium is less; that the mortality and premium rates increase with advancing years and that it certainly does not become any easier to pass the standards of examination required by the company's medical department as a condition precedent to the issuance of a policy of insurance.

In the limited time allotted for this lecture it is not possible to treat the subject exhaustively but my hope is to be able to call your attention specifically to some phases of it which will be illuminating and genuinely helpful. As a general proposition it may be said with entire fairness that an applicant for insurance may close his eyes and buy any form of policy offered by any reputable legal reserve life insurance company and receive his money's worth just as would be the case if he were to enter your leading department store and closing his eyes purchase any article offered for sale with which his hands might chance to come in contact; but just as the shopper in the department store should exercise his experience and knowledge in selecting his purchases just so should the applicant for life insurance select carefully the kind of a policy adapted to his needs. There is a wide range of latitude possible in making purchases in the great up-to-date department stores. There one may buy heavy furs adapted to his needs if he contemplates a journey to the regions of the North pole; there also he may buy the lighter fabrics adapted for his needs if he intends sojourning in the tropics; if he intends to reside in the temperate zones he needs medium weight or staple apparel; there is equally as wide a latitude for the exercises of judgment and discretion on the part of the buyer of life insurance as there is for the buyer of merchandise. Life insurance has its extremes in policy forms as well as its staples and there are individuals to whose needs some one of all of the various policy forms are adapted. As a student of life insurance and its beneficence and as an observer

of the trend of the times I am convinced that never before has there been such a general and successful adaptation of policies to the needs of the insured as at present. I attribute this largely to the excellent educational work along life insurance lines which has been accomplished during recent years. This educational work is broadening more rapidly and becoming more general now than ever before and it is largely to the excellent opportunities for the study of life insurance, afforded by this and other Universities and to the efficient efforts of the Life Underwriters Associations, that such increased knowledge of life insurance has been promulgated. Harvard College, I believe, holds the honor of having first introduced the study of life insurance as a separate course about 1897; today the study of life insurance is a special course in 35 American Universities and the High Schools rapidly are falling in line by prescribing it as a special course; until a few years ago the life insurance course was confined to the study of higher mathematics and actuarial science, but many of the courses now embrace practically all of the angles of life insurance, ranging from the executive department to the solicitor and endeavor to solve the problems which confront the agent in adapting the policies to the needs of his clients. The instructors in the Universities realize the necessity for trained men in all walks of life; they know the advantage a trained mind has over the untrained; they feel a deep interest in the success and happiness of those for whose education they have been responsible and desire them to apply their talents in avenues that are both honorable and remunerative. As is well known to them it is unethical for the young lawyer or physician to go out and seek clients or patients; all the members of these professions ethically may do is to put out their signs and wait. It takes a great deal of courage and patience to wait and there is great danger of deteriorating while waiting. Waiting is a very expensive business not only financially, as living is expensive, but it is trying mentally, because the strain of doing nothing often is much greater than that of using one's powers to their full capacity. When these facts are considered it is but natural that those directing the courses of study in Universities should desire to enlarge their scope so as to direct their students to an additional avocation requiring and liberally compensating skilled and trained minds and having the distinct advantage that its devotees may put all their faculties and energies to immediate and profitable use; such an avocation is life insurance and its worthy disciples at all times may enjoy the consolation of knowing that they are administering beneficially to the needs of their clients and their dependents.

To be successful in adapting a policy to the needs of an applicant it is necessary that the agent should study and understand the insurance needs of an applicant; some applicants at

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a particular time need protection for a specific purpose and protection only; some times the protection they need is for the members of their family or others dependent upon their earnings; some times they need to protect the business enterprises in which they are engaged and at other times they need to protect their business associates or those who have extended them financial assistance without other security than that afforded by their energy, ability and integrity. When protection is desired for a business enterprise, for a business associate or for a creditor it very frequently happens that reliable insurance is desired at the lowest obtainable cost and frequently for a limited number of years only; in such cases the policy adapted to the needs of the insured unquestionably is a non-participating term policy, either with or without the privilege of renewal or conversion at the expiration of the original term and at the company's regular rate for the attained age. As you students of life insurance understand, a non-participating, non-renewable, non-convertible term policy carries a less rate than any other form of policy issued and hence when protection for a given number of years only is desired, it is the policy best adapted to the needs of the applicant. If the applicant believes it possible or probable that he might need the insurance for a greater length of time than that embraced within the first period of years then he can prepare himself for such an emergency by purchasing a renewable term policy at a slightly increased rate which will permit him at the expiration of the first period to renew the policy in its original form for a like period of years but at the rate for his attained age and this too regardless of his physical condition at the expiration of the first period; or he might have a policy which at the end of the first period or subsequently would grant him the privilege of converting it without medical re-examination into a life or any higher premium policy. Where the applicant needs to protect the members of his family or those who depend upon him for their support it should be the aim of the agent to provide him with that form of policy which in case of his death most nearly would supply his dependents with the income formerly supplied by the insured and this requires some form of life policy and brings us forcibly to consider the great merit of monthly income insurance. As is well known, history records almost innumerable cases where the proceeds of life insurance policies, promptly and honorably paid by the life insurance companies upon the death of the insured, have been dissipated by the beneficiaries either because of extravagance or injudicious investments. It is a well known fact that widows or others not versed in the care and investment of funds easily have fallen victims to the wiles of unprincipled promoters or dishonest schemers. Many times they have been induced to loan the proceeds of life insurance policies to their neighbors or

relatives because of the needs or importunities of such neighbors or relatives without obtaining any or adequate security for the funds loaned with the result that they experienced heavy or total losses of the funds loaned. This does not seem strange when it is considered that in the preponderance of cases women, either wives, daughters, mothers or sisters are beneficiaries in life insurance policies and that they have had little or no experience in the earning, care or investment of funds. Practically every day we see all around us instances of unwise investments having been made by experienced business men, versed in the exigencies of business and professional life who none the less are unsuccessful in avoiding losses of funds which they have inherited or accumulated. How much less then should it be anticipated or expected that women, being confronted for the first time with the necessity of safeguarding funds, the proceeds of a life insurance policy paid to them promptly by the life insurance companies, while often yet under the spell of a great sorrow, will be able to keep such funds safe and at the same time profitably employed. It seems almost useless if not foolish to hope for such results under such circumstances, because if they seek the advice of honest and disinterested friends they frequently are confused by multiplicity of advice not all of which will be good, no difference how well it may be intended. With the knowledge of such facts before him the agent to my mind wherever possible should persuade his client to purchase insurance that will pay his widow or beneficiary that amount per month in the event of his death which the insured personally would have supplied had he survived. The agent should see to it that such a policy contains a provision that in the event of its maturity by the death of the insured its proceeds could be paid only to the beneficiary in stipulated monthly payments; that is to say and this I wish particularly to emphasize, he should make it his duty to see that the policy is written so that the beneficiary cannot commute the proceeds thereof by requesting the life insurance company to pay the present value of the future monthly installments direct to the beneficiary; and such a policy should be written so that no assignment by the beneficiary of unmatured installments would be obligatory upon the life insurance company; in other words, the policy should be written in such a way that it could be commuted only upon request of the insured prior to his death and with the consent of the company; such a policy enables the insured as to its proceeds to be his own executor, confident that his behests will be carried out to the letter and his beneficiary be paid as and when directed by him the amount he has provided. The reason that such a policy should only be commuted during the life time of the insured upon his request and with the consent of the company in my judgment is that many times the duty should be placed upon a life insurance company to deter-

mine whether or not such a commutation should be permitted even when requested by the insured. For example: Suppose an elderly man residing with his daughter whose husband was unsuccessful or possibly a profligate, and suppose his daughter at the instance of her husband should endeavor to persuade her father to request a change in such a policy so that the commuted value might be obtained in the event of his death instead of the installments being paid monthly, and suppose the father in order to make life pleasanter for himself and his daughter should yield to her persuasion and request the company to change the policy so it might be commuted, what, I ask you, would be the duty of the officials of the life insurance company? They should appreciate fully the responsibility devolving upon the company and exercise their discretion so as best to protect the daughter and her dependents and not permit the unsuccessful or profligate husband to experiment with the proceeds of such a policy in any of his ambitions for commercial or other business success. In such a case to decline courteously but definitely to permit such a commutation probably would afford a great deal of satisfaction to the insured who, having made the request and the request having been declined, would no longer be subjected to attempted persuasion to make a change in the terms of the policy which could not be accomplished. Cases such as this show that life insurance is becoming more useful and broader in the service it renders its patrons and that this is true is a matter of as much gratification to its well wishers as is the fact that it constantly is becoming more universal.

In supplying a client with life insurance the agent should avoid very carefully supplying either too little or too much insurance; of these two evils the graver one is that of supplying too little insurance, as the applicant who is investing in insurance frequently fails to consider that the amount of insurance which he leaves to his widow or dependents in the event of his death will take the place of his earning power and when the earning power of the amount of the insurance computed at a reasonable rate of interest such as will admit of the principal being invested in securities that are safe and the taxes are deducted from the interest, and the net income afforded by the insurance is developed, the applicant readily can see upon what amount his beneficiary must depend in case of his death in lieu of his earnings. Measured by this standard, a great majority of those carrying life insurance are carrying a sum far less than their needs and when this fact is forced home by the agent, it frequently results in the insured supplying himself with at least some part of the additional insurance he and his beneficiaries need; the danger of over-insurance largely is the result of the vanity of applicants who frequently permit a strong agent to write them a larger policy than they can afford to maintain permanently rather than admit

their inability to continue the payment of the premiums; this is as much the fault of the agent as of the applicant if my conception of an agent's duties be correct, because I believe it to be the duty of the agent to secure the confidence and friendship of his clients and make them realize that in anything which pertains to their life insurance they may be as free to impart their thoughts to him as they would be to unfold any of their secrets to their priest or to the lawyer they had retained. I say this with all deference but with genuine and deep earnestness because I believe there is no duty in life more sacred than that which requires a son, husband or father to protect absolutely his dependent mother, widow or child from poverty or distress in the event of his death and in no other way can he so easily and so certainly do this as by making intelligent arrangements for the life insurance adapted to his needs. And right here I wish to emphasize the importance of collecting premiums subsequent to the first year, technically called renewal premiums. The capacity to collect renewal premiums adds very materially to the agent's ability to serve his clients efficiently. The persistency of a policy holder depends to a very great extent upon how thoroughly he was served by the agent at the time he applied for his insurance and there is no better way of adapting a policy to the needs of the insured than by creating in him such a desire for his policy at the time of his making an application that, understanding all about the burdens of future renewal premiums, he nevertheless makes his application determined to maintain his policy permanently. Properly sold policies are so well adapted that they are proof against the wiles of that despicable individual known as the "twister" who has done more harm to the cause of legitimate legal reserve life insurance and caused more loss to those once named as beneficiaries in life insurance policies than well can be conceived. The "twister," no difference what his guise or pretended mission, is an enemy to all legitimate life insurance interests — the reputable agent, the policy holder and the beneficiary — disguise his intentions as he may, his purposes nevertheless are selfish and he has no intention or desire of benefiting any one but himself in the way of commissions and he cares not how much injury he may do to others so long as he is enabled to accomplish his base purposes. In order to make a few dollars of commission he is willing to sacrifice the interests of companies, agents, policy holders, beneficiaries and the honored reputation of life insurance itself. It is useless to place any credence in his good faith; it is not worth while to give him the benefit of the doubt, because I will venture to say that there is no instance on record of which any of you have ever heard where the twister did not immediately lose interest in his ostensible efforts to serve the policy holder when it was suggested that the exchange of policy he had recommended could be made with the

company in which the policy holder already was insured, upon better terms and without loss of reserves or the payment of a commission by the insured. The machinations of the twister should be forestalled by the agent by making the insured understand that if in the light of subsequent developments or if because of any change in his circumstances or plans some other form of policy would seem to be better adapted to his needs, the agent and his company would serve him faithfully in making any desired change or adaptation of policy and without the commission charge which would be exacted by the twister. This is a service which the agent and company cheerfully should give the insured; it should be the duty and pleasure of the agent to impress upon the mind of the insured ineffaceably that both the agent and the company regarded it as a duty to serve the insured as capably and faithfully afterward as at the time of the purchase of the insurance. It is a well known fact that the form of policy exactly suited to one man's need may not be at all what is required by another; that some times different policies are required at the same time by the same person because he has different interests to protect. The agent should impress upon his clients the flexibility of insurance and that in much the same manner as merchandise may be exchanged in the department stores life insurance may be exchanged or adjusted when changed conditions require it. I cannot too often repeat that the duties of an agent do not cease with the placing of a policy; it is his duty to keep in touch with his clients and to increase their insurance or adjust their insurance when changed conditions or circumstances justify or require it. At times assignments of policies are necessary, beneficiaries must be changed, loans obtained on policies and then these assignments and loans frequently require to be released. The agent should instruct his clients as to all of these possible contingencies and make him realize fully that his company can and will serve and protect him in any proper way, and that the policy form of today and the service of life insurance companies to their patrons are as superior to a few years ago as the electric light is superior to the tallow candle.

Generally speaking, the agent should regard permanency in life insurance as above all things else; the policy should be such under ordinary circumstances that the insured may control it as long as he desires to control it; usually it should be of a form which will not terminate unless and until he be convinced that he no longer needs or desires it and so purposely terminates it. As a rule it is well for the average man of fairly good earning power to arrange for premiums so that he can complete his premiums during his years of greatest productivity and before his increasing age depreciates his earning power, as otherwise he might find his greatest need for insurance when his ability to pay premiums was least. It is not

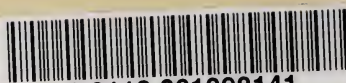
a pleasant experience for an elderly person no longer able to pay premiums to be dependent upon relatives or others for sustenance or for the payment of insurance premiums. It is but natural that strangers, and sometimes relatives, even, having the care of an aged person and the responsibility of paying the premiums upon a life insurance policy, will allow their thoughts to stray to the time when the payment of premiums will cease and the proceeds of the insurance policy will be paid. Circumstances have been known where strangers having care of the aged insured were careless of his comfort to say the least and possibly willingly permitted the insured to "sit in a draft." How differently situated and how much more fortunate would the insured have been in such a case if his insurance had been in the form of an annuity, monthly, quarterly, semi-annually or annually, terminating with his death; in such case if the annuity were worth while, you may rest assured that the old man would not be permitted to "sit in a draft" but would have the easiest chair in the coziest corner by the fireside, because he represented an asset which ceased at his death.

The economical waste involved in improperly placing a life policy not adapted to the needs of the insured is enormous: such policies usually are placed by inexperienced agents or by agents who are only temporarily following the profession of life insurance; they do not understand or they do not care about the importance of making the insured realize that he can make any needed or proper change in his insurance; the insured should have been made to realize that if the burden of his premiums proved too heavy he need not chafe under it or become irritated or drop his insurance; he should adjust it by reduction or otherwise until fully adapted to his needs. If because of not being properly instructed as to his rights and privileges the insured drops his policy, the time and effort expended in writing that policy was in a degree an economic waste, because the agent's commission involved in no manner compares with the harm done to the cause of life insurance by leaving a former patron possibly agrieved and chagrined, feeling that he had not value received for his premium payment and the incipient supporter of life insurance becomes indifferent or actively opposed to the meritorious institution of life insurance and thus frequently refrains from extending proper protection to those entitled thereto through life insurance.

For the employed man or woman, able to accumulate some savings each week, month or year, but not sufficient to find safe and profitable employment as an investment in business or securities, the various forms of endowment insurance are highly to be recommended as they possess such a decided advantage over the depositing of such accumulations in savings banks. With the first payment on an endowment policy a def-

inite estate, vastly larger than the first payment, has been created and is bound to be realized by the insured at a definite date provided only he pays his premiums as and when due. It should be emphasized as contrasting the relative merits of the savings institution and the endowment policy, that if death should occur, immediately upon the payment of the first premium the full amount of the policy at once is available as an estate, while only the amount deposited in a savings bank plus the small interest accumulation would be available had the like amount of money been deposited in a savings bank.

Agents should make debtors realize as I regret to say comparatively few of them now do, that by paying a life insurance premium equivalent to about one or one and one-half per cent interest per annum on the amount of their indebtedness they could provide sufficient life insurance to extinguish their indebtedness in case of death before its payment. A recent case came to my attention where one, being solicited for life insurance gave as a reason for his inability to buy life insurance that he was too heavily in debt; that his former employer had sold him a successful business and granted him a credit of about \$40,000, with the privilege of paying same upon liberal terms extending over a period of ten years; that it required economy on his part and all of his savings to meet the terms of payment. The agent remarked that his former employer had been very liberal to him and the prospect very heartily concurred in the sentiment; the agent then inquired "what will happen to your business prospects and your family if you die suddenly?" The prospect said "I don't know; that is the only thing that troubles me, but I cannot spare money for life insurance." The agent said "I don't see how you can afford to be without it," and finally added, "It would have been a fine thing if your former employer had put in your contract that if you should die before your debt is paid, having met all payments promptly when due prior to your death, that he would cancel your obligation and return the papers to your widow." The prospect replied, "Yes it would, but it would be impossible for him to do that." The agent then said, "I suppose you would have been willing to pay one or two per cent more interest, if he had been willing to put such a provision in the contract?" The prospect replied with emphasis, "I certainly would." The agent then said, "If you will give me one or one and one-half per cent interest per annum and prove to me that you are a man of sound health, of good family history, of good morals and good habits, I will pay your indebtedness, if you die before your indebtedness matures." "How can you afford to do that?" inquired the prospect. "I will do it by providing you with a ten year term policy," replied the agent. The prospect said, "I will take it." Please observe that the prospect was not disturbed about



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his ability to pay the premium upon the policy as soon as he realized his need for it and that he could not afford to be without it.

Group insurance rapidly is coming in favor and promises to supply insurance to large numbers of people for whom suitable provisions heretofore have not been made; some times these groups will be covered for life insurance only; some times they will be covered for accident and illness benefits; some times for old age pensions and some times for a combination of all of these benefits. Some times the premiums will be paid altogether by employers who are deeply interested in the welfare of their employees and some times by mutual arrangement the payment of the premiums will be made jointly by the employer and employees. It is conceded that this will have a marked tendency in bringing the employer and employees into closer harmony and sympathy with each other, thus preventing misunderstandings and friction and benefiting all concerned by creating happier and pleasanter relations as well as by affording the protection and blessings of the insurance.

In closing it may not be amiss for me to say especially to those of you contemplating the profession of Life Insurance as your life work that in my opinion the agent who will be most successful in adapting different styles of policies to the needs of the insured will be one who loves his calling; one who is at heart a lover of his fellow men and who sincerely desires his welfare; one who will try faithfully to do good to his clients and their beneficiaries; one who will scorn to do injury to a fellow worker, the representative of a competing company; one who will participate in the great and good work being done so well by the Life Underwriters' Associations; one who will consider it a greater reward to serve a client capably and faithfully rather than to earn a larger commission. Such an agent not only does honor to himself, his profession and his company but he is an acknowledged addition to the higher life of the community in which he lives and he may rest serene in the knowledge that there is no one doing better work for humanity and for the development and preservation of all the ideals most sacred and helpful to good citizenship than he is.